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## **Summary:**

# **Moore County, North Carolina; Appropriations; General Obligation**

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## Summary:

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### Credit Profile

US\$20.0 mil GO comnty coll bnds ser 2021 due 01/15/2041

<i>Long Term Rating</i>	AA+/Stable	New
Moore Cnty APPROP		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Moore Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

### Rating Action

S&P Global Ratings assigned its 'AA+' rating to Moore County, N.C.'s series 2021 general obligation (GO) community college bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the county's GO debt outstanding, and its 'AA' rating on the county's limited obligation bonds. The outlook is stable.

The county's full faith and credit pledge secures its GO bonds, which are payable from an unlimited-ad valorem tax. Proceeds of the 2021 GO bonds will finance construction of a new nursing education facility at Sandhills Community College.

The limited obligation bonds are secured by annually appropriated available funds. We rate these obligations one notch lower than the county's general creditworthiness to account for the presence of appropriation risk. The county pledges to appropriate from operating revenue annually, and it has a long record of appropriating for similar obligations. We believe there is no unusual political, timing, or administrative risk related to debt payments.

### Credit Overview

The rating reflects our view of the county's stable and diverse local economy with a steadily growing tax base anchored in the health care sector, which has fared relatively well through the COVID-19-induced recession despite having a large golf recreation presence. Visitor activity initially decreased in spring 2020 but has somewhat recovered in fall 2020. Strong real estate and permit activity as well as growth in sales tax revenues contributed to financial stability and fiscal 2020 ended with positive results, keeping with the county's consistently strong historical financial performance. We believe that prudent budget management and very strong flexibility will allow the county to weather any recessionary pressures related to the COVID-19 pandemic in fiscal 2021. With a strong debt profile and well-funded pension plan, pressure from long-term obligations is limited. Given the relative stability in both the local economy and the county's revenue base, we do not expect to change the rating within the outlook period.

The rating further reflects our view of the following credit factors:

- Adequate economy, with projected per capita effective buying income at 104.8% of the national level and market



value per capita of \$141,318;

- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 118.6% of total governmental fund expenditures and 9.1x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 13.0% of expenditures and net direct debt that is 163.0% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Very strong institutional framework score.

### **Environmental, social, and governance factors**

We analyzed the county's environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that they are in line with our view of the sector standard. Absent the implications of COVID-19, we consider the county's social risks in line with that of the sector standard as well. We view the risks posed by the pandemic to public health and safety as a social risk, which if sustained could weaken the county's economy, liquidity, and budgetary performance.

## **Stable Outlook**

### **Downside scenario**

We could lower the rating if the county experiences financial pressures that lead to budgetary imbalance or sustained declines in reserves.

### **Upside scenario**

We could raise the rating if the county's economic metrics improve to levels we consider comparable to higher-rated peers.

### **Adequate economy**

Moore County has an estimated population of 102,950 and is in central NC approximately 50 miles southwest of Raleigh. The county has a projected per capita effective buying income of 104.8% of the national level and per capita market value of \$141,318. The county's assessed value grew by 1.8% over the past year to \$14.1 billion in 2021. The tax base has steadily grown about 2% annually each year, except for in revaluation years that occur every four years, the most recent of which was in 2020 and generated nearly 8.0% AV growth. The county's tax base is very diverse, with the top 10 taxpayers making up just 3.4% of total assessed value in 2020.

The health care sector is the largest employer in Moore County, and First Health of the Carolinas is the largest employer, headquartered in Pinehurst and serving a 15-county region. Plans for a new First Health cancer center were recently finalized, with construction of the \$68 million project expected to be completed in 2022. Another large

component of the local economy is its golf courses and resorts, including some widely known golf courses that have hosted national events such as the US open. It is estimated that half of the region's visitors are there as a result of the county's golf industry. Pinehurst Resorts, the county's second largest taxpayer, recently announced a \$25 million investment in a new museum and visitor center expected to be completed in 2023. And the USGA announced four additional US Opens will be hosted at Pinehurst in the future. Each major event hosted at Pinehurst and other venues brings visitors and economic activity to the county.

Moore County's unemployment rate was historically low at 3.4% in 2019; however, due to the COVID-19-induced recession, the unemployment rate temporarily increased materially, peaking at 12.8% in April 2020 before improving to 5.4% in November 2020. With uncertainty remaining about vaccine availability, and potential recessionary impacts still looming, we will continue to monitor the long-term economic and labor market effects. (For more information on S&P Global Economics latest forecast, see "Staying Home for the Holidays" published Dec. 2, 2020 on RatingsDirect.) However, given the relatively stable makeup of the tax base, we expect the local economy to remain strong during the outlook period.

### **Very strong management**

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. The county evaluates historical data and trends when developing revenue and expenditure assumptions for budgeting purposes. The budget can be amended as needed throughout the fiscal year, and performance is regularly monitored, with monthly budget-to-actual reporting provided to the board. The county has a formal long-term financial plan that includes multi-year projections of revenues and expenditures, is annually updated, and is published in the budget each year. The county prepares and annually updates a 10-year capital improvement plan as well that includes project descriptions, costs, timing, and funding sources. The county's investment policy outlines allowable investments and monthly investment reporting is provided to the board. The county's formal debt policy includes qualitative guidelines as well as quantitative metrics limiting debt as a percent of AV (2.5%), as a portion of expenditures (15%), and aims to have at least 55% of principal retire within 10 years. The county's formal reserve policy requires maintenance of available fund balance equal to 17% to 20% of expenditures. Additionally, we believe the county has implemented appropriate systems, protocols, and staff trainings related to cyber-security risk mitigation, including maintenance of cyber-security-insurance.

### **Strong budgetary performance**

Our assessment adjusts for recurring transfers in to and out of the general fund as well as for non-recurring capital expenditures from bond proceeds. After adjustments, the county has consistently experienced positive operating results in each of the past three fiscal years (2018-2020), ranging from \$1.1 million to \$5.4 million or 1.0% to 6.0% of general fund expenditures. Similarly, results were also positive across all governmental funds, ranging from \$6.9 million to \$8.3 million, or 6.5% to 6.7% of total governmental fund expenditures. Management typically uses conservative revenue and expenditure assumptions, leading to actual results outperforming budget estimates. We consider the county's revenue base to be relatively stable with property taxes making up the largest source (60%) of general fund revenues, followed by sales taxes (20%), intergovernmental revenues (11%), and charges for services (7%).

For fiscal 2020, revenues came in \$4.9 million over budget, \$2.2 million of which was from sales tax revenues above estimate. Sales tax revenues increased 13% in fiscal 2020 compared to 2019, and it was also the first year of full collections for a recently adopted Article 46 quarter-cent sales tax that generated an additional \$3.8 million. Occupancy taxes underperformed in fiscal 2020 and were 21% lower than they were in 2019. However, management reports that this revenue source doesn't directly affect operating performance because those dollars are passed on to the convention and visitors bureau for tourism-related initiatives.

The county adopted a balanced budget for the fiscal year beginning July 1, 2021 that incorporates conservative revenue assumptions to account for the uncertainty surrounding COVID-19 and the recent recession, which may continue to have an affect during the current fiscal year. Fiscal 2021 general fund revenues are budgeted to be 6% less than fiscal 2020 overall, with property tax revenues essentially flat, and sales tax revenues are estimated to be 18% lower. Management reports revenues are trending favorably compared to budget fiscal-year-to-date and expects at least break-even results at fiscal 2021 year-end.

### **Very strong budgetary flexibility**

The county has consistently maintained very strong available general fund balance in each of the past three audited fiscal years (2018-2020) of between \$22.9 million and \$23.5 million, amounts equal to between 23% and 26% of general fund expenditures. This is consistent with the county's formal reserve policy that requires available fund balance of at least 17% of operating expenditures. Due to recurring operating surpluses, amounts in excess of the reserve target are routinely moved to the capital reserve fund from the general fund to finance capital projects on a pay-as-you-go basis. While we do not include capital reserves in our available fund balance calculations, we note that at fiscal year-end 2020, the capital reserve fund balance was approximately \$19.9 million, which is a source of additional flexibility. With no plans to draw on reserves in fiscal 2021, we expect budgetary flexibility to remain very strong throughout the outlook period.

### **Very strong liquidity**

Moore County's liquidity is very strong, with total government available cash at 118.6% of total governmental fund expenditures and 9.1x governmental debt service in 2020. In our view, the county has strong access to external liquidity if necessary, which it has demonstrated through its previous issuance of GO, appropriation, and revenue bonds over the past 20 years. The county's investments are primarily held in North Carolina local government investment pools, which we do not consider to be aggressive. The county has previously privately placed four series of bonds, and acceleration of principal is included as a remedy for default. However, we believe Section 160A-20 of North Carolina statutes, which prohibits deficiency judgments for appropriation debt, mitigates liquidity risk, and therefore we do not consider this debt to be a contingent liability.

### **Adequate debt and contingent liability profile**

Total governmental fund debt service is 13.0% of total governmental fund expenditures, and net direct debt is 163.0% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, which is in our view a positive credit factor. In May 2018, the county passed a GO bond referendum in the total amount of \$123 million, which included \$103 million for GO school bonds and \$20 million for GO community college bonds. The GO bonds were previously issued in three pieces, and this issuance of the community college bonds will complete the 2018 authorization. Proceeds of the 2021 GO bonds will finance construction of a new nursing education facility at Sandhills

Community College. The county also passed a referendum for a new quarter-cent sales tax in November 2018 to support school capital funding. While we do not consider the community college or school construction bonds to be self-supporting, we acknowledge that revenues from the recently implemented quarter-cent sales tax revenue could provide additional budgetary flexibility. The county plans to issue limited obligation bonds later in 2021 to finance a new courthouse in an amount of up to \$35 million. We do not expect this additional debt to materially change our overall view of the debt profile.

### **Pension and other post-employment benefits**

We do not view pension and other postemployment benefit (OPEB) liabilities as a source of credit pressure for Moore County, given our opinion of the largest pension plan's current strong funding status and limited escalating cost trajectory risk. The county's combined pension and OPEB contributions totaled \$3.7 million or 2.9% of adjusted total governmental fund expenditures in 2020, of which \$3.2 million (2.5%) was pension contributions and \$457,000 (0.4%) was OPEB contributions.

Moore County participates in the following plan as of June 30, 2020:

- Local Government Employees' Retirement System (LGERS), a cost-sharing, multiple-employer, defined-benefit pension plan, funded on an actuarial basis, with a funded ratio of 89% in fiscal 2020 and a proportional share of net pension liability equal to \$12.8 million. In general, we expect plan contributions to meet or exceed our view of minimum funding progress, partially due to the plan's closed, level-dollar, 12-year amortization that should result in timely funding progress. However, we believe LGERS' discount rate of 7% could lead to some contribution volatility.
- Law Enforcement Officers' Special Separation Allowance (LEOSSA), a single-employer, defined-benefit pension plan, which is funded on a pay-as-you-go basis, with a total pension liability of \$3.0 million.
- Healthcare Benefits Plan (OPEB plan), a single-employer, defined-benefit plan, which pays all or a portion of the overall cost of insurance coverage for retirees, and is funded on a pay-as-you-go basis. The county's total OPEB liability as of fiscal 2020 was \$35.7 million. Although OPEB liabilities are funded on a pay-as-you-go basis, the county has legal flexibility to alter OPEB benefits, which we view as a way to mitigate potential cost escalations.

### **Very strong institutional framework**

The institutional framework score for North Carolina counties is very strong.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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